

Message Text

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ACTION EA-09

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TO SECSTATE WASHDC 6517

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TAGS: ECON, EIND, EAGR, CH

SUBJ: PRC FIRST HALF ECONOMIC ASSESSMENT: INDUSTRY SHOWS IMPROVE-
MENT, BUT PROBLEMS REMAIN: AGRICULTURE HAS A GOOD BEGINNING.

REF: A) HK A-104 B) HK A-169

FOLLOWING IS THE SUMMARY AND INTRODUCTION FROM HONG KONG AIR-
GRAM A-169.

1. PRC INDUSTRIAL OUTPUT CONTINUED TO PICK UP MOMENTUM IN THE
FIRST HALF OF THE YEAR, RISING BY AN ESTIMATED RANGE OF 9 TO 11
PERCENT OVER THE SAME PERIOD LAST YEAR. ELEVEN PROVINCES HAVE
ANNOUNCED FIRST HALF OR PARTIAL INDUSTRIAL OUTPUT CLAIMS. THESE
PROVINCES REPRESENT 60 PERCENT OF TOTAL NATIONAL INDUSTRIAL OUT-
PUT. BASED ON A WEIGHTED AVERAGE OF THESE ELEVEN PROVINCES' RATES
OF GROWTH (11.4 PERCENT) AND ASSUMING SOME GROWTH IN THE NON-RE-
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PORTING PROVINCES (5 PERCENT), WE WOULD CONSERVATIVELY PROJECT

A NATIONWIDE RATE OF GROWTH IN INDUSTRIAL OUTPUT OF 9 PERCENT FOR THE HALF YEAR. THIS ESTIMATE IS HIGHER THAN THE 7 PERCENT CALCULATED IN OUR QUARTERLY REPORT (HK A-104) USING IDENTICAL ASSUMPTIONS AND METHODOLOGY, THUS SUGGESTING A CONTINUING RETURN TO NORMAL GROWTH PATTERNS IN THE AGGREGATE.

2. ALTERNATIVELY, USE OF THE ASSUMPTION THAT THE NON-REPORTING PROVINCES GREW AT A RATE NEAR THE AVERAGE OF THE REPORTING PROVINCES, AN ASSUMPTION SUPPORTED BY RESEARCH PERFORMED BY FIELD, LARDY AND EMERSON, YIELDS 11.4 PERCENT AS A NATIONAL GROWTH RATE.

3. MOVEOVER, REPORTS OF OUTPUT INCREASES BY MAJOR INDUSTRIAL SECTORS, SUPPORTED BY ESTIMATIONS OF GROWTH IN SOME AREAS, PROVIDES A SECOND STATISTICAL BASIS FOR AN OVERALL ASSESSMENT. CALCULATED FROM A WEIGHTED AVERAGE OF THESE SECTORS, THE RATE OF GROWTH FOR INDUSTRY IS ESTIMATED AT 9.5 PERCENT AT THE HALF YEAR MARK. THE OVERALL GROWTH RATE OF CHINESE INDUSTRY FOR THE FIRST HALF YEAR IS THUS ESTIMATED TO FALL WITHIN A 9-11 PERCENT RANGE.

4. CONTRIBUTING TO THIS GROWTH WERE FOUR MAJOR INDUSTRIES. PETROLEUM PRODUCTION AND MACHINE BUILDING REPORTED PERCENTAGE INCREASES EQUAL TO THEIR LONG-TERM GROWTH RATE. CAPITAL CONSTRUCTION IS BEING PUSHED; EXPENDITURES FOR CONSTRUCTION ARE UP 32 PERCENT OVER THE FIRST HALF OF 1974 AND ATTENTION HAS BEEN FOCUSED ON SOME LONG TERM PROBLEM AREAS. AN END-OF-THE-YEAR OR END-OF-THE-PLAN CONSTRUCTION PUSH IS NOT UNUSUAL IN CHINA.

5. IN SPITE OF THE GOOD AGGREGATE GROWTH, THERE ARE STILL SERIOUS PROBLEMS IN CERTAIN INDUSTRIAL SECTORS. COAL PRODUCTION IS UNDERSTANDABLY SLUGGISH AND NO PERCENTAGE CLAIM WAS GIVEN, SUGGESTING A GROWTH RATE LESS THAN THE 6 PERCENT FIRST-QUARTER CLAIM. THE STEEL INDUSTRY REMAINS TROUBLED. NO NATIONAL STEEL PRODUCTION FIGURES HAVE BEEN RELEASED AND PEKING'S CONCERN FOR THIS SECTOR WAS UNDERSCORED BY AN ARTICLE IN THE JULY ISSUE OF THE IMPORTANT PARTY THEORETICAL JOURNAL RED FLAG CALLING FOR INCREASED PRODUCTION OF IRON AND STEEL. FERTILIZER PRODUCTION IS UNCLASSIFIED

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UP BY AN ESTIMATED 10 PERCENT, PROBABLY LESS THAN PEKING HOPED.

6. ON THE AGRICULTURAL SIDE, THERE HAS BEEN ABOUT A 10 PERCENT INCREASE OVER THE FIRST HALF YEAR IN THE HARVEST OF WINTER-SOWN SUMMER HARVESTED CROPS. IN SPITE OF ADVERSE WEATHER CONDITIONS, A GOOD HARVEST WAS ACHIEVED DUE IN PART TO PREVIOUS INVESTMENTS IN WATER CONSERVANCY AND TO INCREASED

ACREAGE. IT MUST BE REMEMBERED THAT THE SUMMER HARVEST ACCOUNTS
FOR ONLY 20 TO 30 PERCENT OF THE TOTAL YEARLY OUTPUT YIELD AND
IS GENERALLY THE MORE STABLE IN TERMS OF VARIABILITY OF OUT-
PUT DUE TO BAD WEATHER. THE VITAL FALL HARVEST IS THE MORE
IMPORTANT ONE AND OUTPUT CAN NOT BE ASSESSED FOR SOME MONTHS
YET.
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